

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>DEXTER AREA FIRE DEPARTMENT</b>	County <b>WASHTENAW</b>
Audit Date <b>12-31-2005</b>	Opinion Date <b>MARCH 3, 2006</b>	Date Accountant Report Submitted to State <b>MAY 10, 2006</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>Karl L. Drake, CPA</b>			
Street Address <b>3775 Kimmel Road</b>	City <b>Horton</b>	State <b>MI</b>	Zip <b>49246</b>
Accountant Signature 			

**DEXTER  
AREA FIRE  
DEPARTMENT**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

**DEXTER AREA FIRE DEPARTMENT**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Dexter Area Fire Department  
Dexter, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Dexter Area Fire Department, as of and for the year ended December 31, 2005, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dexter Area Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Dexter Area Fire Department as of December 31, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2006, on our consideration of Dexter Area Fire Department's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 22 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dexter Area Fire Department's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script, reading "Karl L. Drake".

Karl L. Drake, P.C.  
Certified Public Accountant

March 3, 2006

# DEXTER AREA FIRE DEPARTMENT

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## Management's Discussion and Analysis

This section of Dexter Area Fire Department's annual financial report presents our discussion and analysis of the Department's financial performance during the fiscal year ended December 31, 2005. It is best read in conjunction with the Department's financial statements that follow this section.

### Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Dexter Area Fire Department financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the entire Department, presenting both an aggregate view of the Department's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Department's operations in more detail than the government-wide financial statements by providing information about the Department's most significant fund - the General Fund - with all other funds presented in one column as non-major funds.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### Basic Financial Statements

*Government-Wide Financial Statements*

*Fund Financial Statements*

Notes to the Basic Financial Statements

*(Required Supplemental Information)*

Budgetary Information for the General Fund

Other Supplemental Information

### Reporting The Department As A Whole - Government-Wide Financial Statements

One of the most important questions asked about the Department is, "As a whole, what is the Department's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Department's financial statements, report information on the Department as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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These two statements report the Department's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Department's financial health or financial position. Over time, increases or decreases in the Department's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Department's operating results. However, the Department's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other non-financial factors to assess the overall health of the Department.

The statement of net assets and statement of activities report the governmental activities for the Department, which encompass all of the Department's services, including resources and community enrichment. Revenue from other governments finance most of these activities.

### **Reporting The Department's Most Significant Funds - Fund Financial Statements**

The Department's fund financial statements provide detailed information about the most significant funds - not the Department as a whole. Some funds are required to be established by State law and by bond covenants. However, the Department establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Department use the following accounting approach:

Governmental Funds - All of the Department's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Department and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

# DEXTER AREA FIRE DEPARTMENT

## Management's Discussion and Analysis

### The Department As A Whole

Recall that the statement of net assets provides the perspective of the Department as a whole. Table 1 provides a summary of the Department's net assets as of December 31, 2005 and 2004:

TABLE 1	Governmental Activities	
	(In Thousands)	
	2005	2004
<b>ASSETS</b>		
Current and other assets	\$ 321.9	\$ 270.0
Capital assets - Net of accumulated depreciation	718.6	758.4
<b>TOTAL ASSETS</b>	<b>1,040.5</b>	<b>1,028.4</b>
<b>LIABILITIES</b>		
Current liabilities	143.6	114.9
Long-term liabilities	266.6	358.6
<b>TOTAL LIABILITIES</b>	<b>410.2</b>	<b>473.5</b>
<b>NET ASSETS</b>		
Invested in property and equipment - Net of related debt	464.9	411.8
Restricted	0.0	0.0
Unrestricted	165.4	143.1
<b>TOTAL NET ASSETS</b>	<b>\$ 630.3</b>	<b>\$ 554.9</b>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Department's governmental activities is discussed below. The Department's net assets were \$630.3 thousand at December 31, 2005. Capital assets, net of related debt totaling \$464.9 thousand compares the original cost, less depreciation of the Department's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Department's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$165.4 thousand) was unrestricted.



The \$165.4 thousand in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Department as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2005.

TABLE 2	Governmental Activities	
	(In Thousands)	
	2005	2004
<b>REVENUE</b>		
Program Revenue		
Charges for Services	\$ 825.7	\$ 773.0
Grants and categoricals	43.9	9.0
General Revenue		
Property taxes	---	---
State Aid	---	---
Interest	4.4	1.4
Other	1.7	7.5
<b>TOTAL REVENUE</b>	<b>\$ 875.7</b>	<b>\$ 790.9</b>
<b>FUNCTION/PROGRAM EXPENSES</b>		
General Government	\$ ---	\$ ---
Public Safety	708.6	645.3
Roads	---	---
Community Enrichment	---	---
Interest	16.7	21.8
Depreciation (unallocated)	75.0	73.9
<b>TOTAL FUNCTION/PROGRAM EXPENSES</b>	<b>800.3</b>	<b>741.0</b>
<b>INCREASE IN NET ASSETS</b>	<b>\$ 75.4</b>	<b>\$ 49.9</b>

# **DEXTER AREA FIRE DEPARTMENT**

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## **Management's Discussion and Analysis**

As reported in the statement of activities, the cost of all of our governmental activities this year was \$800.3 thousand. Certain activities were partially funded from those who benefited from the programs (\$825.7 thousand) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$43.9 thousand). We paid for the remaining "public benefit" portion of our governmental activities with our other revenues, such as interest and general entitlements.

The Department experienced an increase in net assets of \$75.4 thousand. The key reason for the change in net assets was capitalizable expenditures. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 13.

As discussed above, the net cost shows the financial burden that was placed on the State and the Department's taxpayers by each of these functions. Since charges for services constitute the vast majority of the Department's operating revenue sources, the Board of Directors must annually evaluate the needs of the Department and balance those needs with available unrestricted resources.

### **The Department's Funds**

As we noted earlier, the Department uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the Department is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Department's overall financial health.

As the Department completed this year, the governmental funds reported a combined fund balance of \$284.9 thousand, which is an increase of \$25.5 thousand from last year. The primary reasons for the increase are controlling expenditures. The General Fund, the principal operating fund, saw the fund balance increase \$25,472 to \$284,898, which is greater than the budgeted increase of \$0.

### **General Fund Budgetary Highlights**

Over the course of the year, the Department amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Department's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

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## **Capital Asset And Debt Administration**

### **Capital Asset**

At December 31, 2005, the Department had \$718.6 thousand invested in capital assets that include vehicles and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$39,858 or 5 percent, from last year.

	2005	2004
Vehicles	\$ 1,079,568	\$ 1,079,568
Equipment	179,328	144,172
Total Capital Assets	1,258,896	1,223,740
Less Accumulated Depreciation	540,322	465,313
Net Capital Assets	\$ 718,574	\$ 758,427

Other obligations include employee-compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### **Economic Factors And Next Year's Budgets And Rates**

Our elected officials and administration considered many factors when setting the Department's 2006 fiscal year budget.

The Department's budget is very similar to the prior year. Personnel costs will increase, and governmental revenues will be increased to compensate. Revenues and expenditures will be very consistent with last year.

### **Contacting The Department's Financial Management**

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors of Dexter Area Fire Department with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fire Chief, 8140 Main Street, Dexter, Michigan 48130.

# DEXTER AREA FIRE DEPARTMENT

## Government-Wide Financial Statements

### STATEMENT OF NET ASSETS

December 31, 2005

	Governmental Activities
<b>ASSETS</b>	
Current Assets	
Cash	\$ 93,090
Accounts Receivable	---
Due from Other Governmental Units	206,428
Prepaid Expenditures	<u>22,427</u>
Total Current Assets	<u>321,945</u>
Non-Current Assets	
Capital Assets	1,258,896
Less: Accumulated Depreciation	<u>-540,322</u>
Total Non-Current Assets	<u>718,574</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,040,519</u></b>
 <b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities	
Accounts Payable	\$ 37,047
Current Portion of Notes and Bonds Payable	98,292
Accrued Interest	8,283
Deferred Revenue	<u>---</u>
Total Current Liabilities	<u>143,622</u>
Non-Current Liabilities	
Notes and Bonds Payable	155,347
Compensated Absences and Severance Pay	<u>111,278</u>
Total Non-Current Liabilities	<u>266,625</u>
<b>TOTAL LIABILITIES</b>	<b><u>410,247</u></b>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	464,935
Restricted for Debt Service	---
Unrestricted	<u>165,337</u>
<b>TOTAL NET ASSETS</b>	<b><u>630,272</u></b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,040,519</u></b>

See Accompanying Notes to Financial Statements

# STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2005

		<u>Program Revenues</u>		<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants</u>	<u>Net &lt;Expense&gt; Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>				
Governmental Activities				
General Government	\$ ---	\$ ---	\$ ---	\$ ---
Public Safety	708,626	825,710	43,882	160,966
Roads	---	---	---	---
Community Enrichment	---	---	---	---
Interest on Long-Term Debt	16,665	---	---	-16,665
Depreciation (Unallocated)	<u>75,009</u>	<u>---</u>	<u>---</u>	<u>-75,009</u>
Total Governmental Activities	<u>\$ 800,300</u>	<u>\$ 825,710</u>	<u>\$ 43,882</u>	<u>\$ 69,292</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				\$ ---
Property Taxes, Levied for Debt Service				---
State of Michigan Aid, Unrestricted				---
Interest Earnings				4,400
Other				<u>1,720</u>
Total General Revenue				<u>6,120</u>
<b>CHANGE IN NET ASSETS</b>				75,412
NET ASSETS - BEGINNING OF YEAR				<u>554,860</u>
<b>NET ASSETS - END OF YEAR</b>				<u><u>\$ 630,272</u></u>

# DEXTER AREA FIRE DEPARTMENT

## Fund Financial Statements

### BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2005

	General	Other Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Investments	\$ 93,090	\$ ---	\$ 93,090
Accounts Receivable	---	---	---
Due from Other Governmental Units	206,428	---	206,428
Due from Other Funds	---	---	---
Inventories	---	---	---
Prepaid Expenditures	22,427	---	22,427
<b>TOTAL ASSETS</b>	<b>\$ 321,945</b>	<b>\$ ---</b>	<b>\$ 321,945</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 37,047	\$ ---	\$ 37,047
Accrued Salaries and Withholdings	---	---	---
Due to Other Funds	---	---	---
Deferred Revenue	---	---	---
<b>TOTAL LIABILITIES</b>	<b>37,047</b>	<b>---</b>	<b>37,047</b>
<b>FUND BALANCES</b>			
Reserved for Inventories	---	---	---
Reserved for Future Purchases	275,000	---	275,000
Unreserved and Undesignated	9,898	---	9,898
<b>TOTAL FUND BALANCES</b>	<b>284,898</b>	<b>---</b>	<b>284,898</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 321,945</b>	<b>\$ ---</b>	<b>\$ 321,945</b>
<b>TOTAL GOVERNMENTAL FUND BALANCES</b>			<b>\$ 284,898</b>
Amounts reported for governmental activities in the statement of net assets are different because:			
- Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
Cost of the Capital Assets			\$ 1,258,896
Accumulated Depreciation			<u>-540,322</u>
			718,574
- Long-term Liabilities are not due and payable in the current period and are not reported in the fund.			
Loans Payable			-253,639
Compensated absences			<u>-111,278</u>
			-8,283
- Accrued interest is not included as a liability in governmental fund.			<u>-8,283</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>			<b>\$ 630,272</b>

See Accompanying Notes to Financial Statements.

# STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2005

	General	Other Funds	Totals
<b>REVENUE</b>			
Federal Grants	\$ 43,882	\$ ---	\$ 43,882
Property Taxes	---	---	---
State Grants	---	---	---
Governmental Revenue	825,710	---	825,710
Investment	4,400	---	4,400
Other	1,720	---	1,720
<b>TOTAL REVENUE</b>	<b>875,712</b>	<b>---</b>	<b>875,712</b>
<b>EXPENDITURES</b>			
General Government	---	---	---
Public Safety	702,292	---	702,292
Public Works	---	---	---
Recreational and Cultural	---	---	---
Debt Service	112,792	---	112,792
Capital Outlay	35,156	---	35,156
<b>TOTAL EXPENDITURES</b>	<b>850,240</b>	<b>---</b>	<b>850,240</b>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<b>25,472</b>	<b>---</b>	<b>25,472</b>
<b>OTHER FINANCING SOURCES</b>			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>---</b>	<b>---</b>	<b>---</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>25,472</b>	<b>---</b>	<b>25,472</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>259,426</b>	<b>---</b>	<b>259,426</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 284,898</b>	<b>\$ ---</b>	<b>\$ 284,898</b>

See Accompanying Notes to Financial Statements.

# **DEXTER AREA FIRE DEPARTMENT**

## **Fund Financial Statements**

### **RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**YEAR ENDED DECEMBER 31, 2005**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ 25,472**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-75,009	
Capital Outlay	<u>35,156</u>	
		-39,853

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 3,154
- Repayment of note and bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 92,973
- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds -6,334

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 75,412**



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Department conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

**A. REPORTING ENTITY**

The Dexter Area Fire Department provides fire protection and rescue services to the Village of Dexter and the Townships of Webster, Dexter, and Lima, of Washtenaw County, Michigan operating under an intergovernmental service agreement. The Department is directed by a Board consisting of representatives from each of the participating governmental entities.

**B. BASIS OF PRESENTATION****Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

**Government-Wide Statements**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

### **B. BASIS OF PRESENTATION (CONTINUED)**

#### **Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### **GOVERNMENTAL FUND**

General Fund - The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund.

### **C. BUDGETS AND BUDGETARY ACCOUNTING**

The General Fund is under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Department's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Department for these budgetary funds were adopted at the functional level.

### **D. CASH EQUIVALENTS**

The Department considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

### **E. FINANCIAL INSTRUMENTS**

The Department does not require collateral to support financial instruments subject to credit risk.

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## **F. FUND EQUITY**

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

## **G. CAPITAL ASSETS**

Capital assets, which include equipment and vehicles are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Vehicles	5-20 years
Equipment	5-10 years

## **H. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

## **I. TOTAL COLUMNS ON COMBINED STATEMENTS**

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with United States generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

### **J. ESTIMATES**

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

#### **A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS**

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Department, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Department is in compliance with State law regarding their cash deposits.

The Department maintains its cash deposits at two banks.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Department's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 93,090	\$ 111,038
Uninsured & Uncollateralized	---	---
Total Deposits	<u>\$ 93,090</u>	<u>\$ 111,038</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

### **NOTE 3 - ACCUMULATED FUND DEFICITS**

There were no accumulated fund deficits at December 31, 2005.

### **NOTE 4 - CAPITAL ASSETS**

Capital asset activity of the Department's Governmental activities was as follows:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance December 31, 2005</u>
Capital assets being depreciated:				
Vehicles	\$ 1,079,568	\$ ---	\$ ---	\$ 1,079,568
Equipment	144,172	35,156	---	179,328
Subtotal	<u>1,223,740</u>	<u>35,156</u>	<u>---</u>	<u>1,258,896</u>
Accumulated depreciation:				
Vehicles	385,054	63,713	---	448,767
Equipment	80,259	11,296	---	91,555
Subtotal	<u>465,313</u>	<u>75,009</u>	<u>---</u>	<u>540,322</u>
Net capital assets	<u>\$ 758,427</u>	<u>\$ -39,853</u>	<u>\$ ---</u>	<u>\$ 718,574</u>

Depreciation expense was not charged to activities as the Department considers its assets to impact multiple activities and allocation is not practical.

# DEXTER AREA FIRE DEPARTMENT

## Notes To Financial Statements

### NOTE 5 - EXPENDITURES IN EXCESS OF BUDGET

PA 621 of 1978, Sect. 186(1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Department's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Department for these budgetary funds are adopted at the activity level

During the year ended December 31, 2005, there were expenditures in excess of the amounts appropriated as follows:

	Budget	Actual	Excess
Public Safety	\$ 690,910	\$ 702,292	\$ 11,382
Capital Outlay	22,000	35,156	13,156

### NOTE 6 - LEASES

The Department leases a garage and office space from the Village of Dexter. The term of the lease is indefinite. The lease may be terminated when the Fire Department ceases to exist or at such time that the Village ceases to hold an interest in the Department. Rent is \$693.38 per month. Total lease expense for this lease was \$8,321 in 2005.

The Department leases garage space from the Multi-Lakes Water and Sewer Authority for \$400 per month. Total lease expense was \$4,800 in 2005.

### NOTE 7 - ACCUMULATED UNPAID BENEFITS

Volunteer employees are paid annually for excess vacation and sick pay. Full-time employees are allowed to accumulate sick and vacation pay. The amount accrued at December 31, 2005 was \$111,278, and is included in Long-Term Debt.

### NOTE 8 - POST-EMPLOYMENT BENEFITS

The Department provides no post-employment benefits to retirees.

### NOTE 9 - RISK MANAGEMENT

The Department is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (worker's compensation). The Department has purchased commercial insurance for property loss, torts and workers' compensation claims, settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

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## NOTE 10 - LONG-TERM DEBT

The Department purchased a 2000 Pierce Dash Pumper Truck on November 15, 1999 for \$321,926. The truck was financed through Banc One Leasing Corporation. Annual payments are due beginning April 24, 2001 for seven years of \$58,428.75, which include interest at 5.7%. Future annual obligations are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 52,257.42	\$ 6,171.33	\$ 58,428.75
2007	55,257.00	3,171.75	58,428.75
Total	<u>\$ 107,514.42</u>	<u>\$ 9,343.08</u>	<u>\$ 116,857.50</u>

The Department purchased a 2001 Pierce Dash Pumper Truck on March 7, 2001 for \$332,956. The truck was financed through Banc One Leasing Corporation. An initial payment of \$32,956 was made on March 7, 2001. Thereafter, annual payments of \$54,363.53 including interest at 5.7% are due beginning July 7, 2002 for seven years. Future annual obligations are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 46,034.42	\$ 8,329.11	\$ 54,363.53
2007	48,658.38	5,705.15	54,363.53
2008	51,431.91	2,931.62	54,363.53
Total	<u>\$ 146,124.71</u>	<u>\$ 16,965.88</u>	<u>\$ 163,090.59</u>

# **DEXTER AREA FIRE DEPARTMENT**

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## **REQUIRED SUPPLEMENTAL INFORMATION**



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**Budgetary Comparison Schedule****GENERAL FUND****YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
<b>REVENUE</b>				
Federal Grants	\$ ---	\$ ---	\$ 43,882	\$ 43,882
State Revenue	---	---	---	---
Governmental Revenue	825,710	825,710	825,710	---
Investment	---	---	4,400	4,400
Other	---	---	1,720	1,720
Transfers In	---	---	---	---
<b>TOTAL REVENUE</b>	<b>825,710</b>	<b>825,710</b>	<b>875,712</b>	<b>50,002</b>
<b>EXPENDITURES</b>				
General Government	---	---	---	---
Public Safety	690,910	690,910	702,292	-11,382
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	112,800	112,800	112,792	8
Capital Outlay	22,000	22,000	35,156	-13,156
Other Uses - Operating Transfers Out	---	---	---	---
<b>TOTAL EXPENDITURES</b>	<b>825,710</b>	<b>825,710</b>	<b>850,240</b>	<b>-24,530</b>
<b>EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES</b>	---	---	25,472	25,472
<b>BUDGETARY FUND BALANCE - January 1, 2005</b>	259,426	259,426	259,426	---
<b>BUDGETARY FUND BALANCE - DECEMBER 31, 2005</b>	<b>\$ 259,426</b>	<b>\$ 259,426</b>	<b>\$ 284,898</b>	<b>\$ 25,472</b>

# **DEXTER AREA FIRE DEPARTMENT**

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## **OTHER SUPPLEMENTAL INFORMATION**

**COMPARATIVE BALANCE SHEET**

**DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Cash	\$ 93,090	\$ 132,907
Accounts Receivable	---	---
Due from Other Governments	206,428	114,946
Prepaid Expenses	<u>22,427</u>	<u>22,112</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 321,945</u></b>	<b><u>\$ 269,965</u></b>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 37,047	\$ 10,539
Accrued Payroll and Payroll Taxes	<u>---</u>	<u>---</u>
<b>TOTAL LIABILITIES</b>	<b>37,047</b>	<b>10,539</b>
<b>FUND BALANCE</b>	<b><u>284,898</u></b>	<b><u>259,426</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 321,945</u></b>	<b><u>\$ 269,965</u></b>

# **DEXTER AREA FIRE DEPARTMENT**

## **All Governmental Funds**

### **COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>REVENUE</b>		
Federal Grant Revenue	\$ 43,882	\$ 8,984
Governmental Revenue		
Village of Dexter	301,080	252,939
Township of Webster	275,237	258,849
Township of Dexter	180,907	200,933
Township of Lima	68,486	60,280
Investment Revenue	4,400	1,382
Miscellaneous Revenue	<u>1,720</u>	<u>7,559</u>
<b>TOTAL REVENUE</b>	<b><u>875,712</u></b>	<b><u>790,926</u></b>
<b>OPERATING EXPENDITURES</b>		
Salaries	389,166	342,277
Professional Fees	6,825	6,740
Dues and Memberships	1,978	2,130
Payroll Taxes	28,944	26,304
Insurance	37,004	33,235
Benefits	88,609	63,660
Workers Compensation	18,773	10,741
Supplies	9,722	8,081
Quarters	1,727	1,372
Training	2,960	3,598
Utilities	5,940	5,468
Repairs and Maintenance	45,044	60,583
Building Rent	13,121	4,000
Gas, Oil and Fuel	14,809	9,036
Telephone	14,792	13,546
Dispatch	11,403	10,907
Clothing Allowance	8,356	2,981
Medical	1,800	1,858
Miscellaneous	1,319	569
Capital Outlay	35,156	5,280
Debt Service	<u>112,792</u>	<u>112,792</u>
<b>TOTAL EXPENDITURES</b>	<b><u>850,240</u></b>	<b><u>725,158</u></b>
<b>INCREASE IN FUND BALANCE</b>	<b>25,472</b>	<b>65,768</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b><u>259,426</u></b>	<b><u>193,658</u></b>
<b>FUND BALANCE - END OF YEAR</b>	<b><u>\$ 284,898</u></b>	<b><u>\$ 259,426</u></b>

3775 Kimmel Road

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Dexter Area Fire Department

We have audited the financial statements of Dexter Area Fire Department as of and for the year ended December 31, 2005, and have issued our report thereon dated March 3, 2006. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Dexter Area Fire Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dexter Area Fire Department's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, P.C.  
Certified Public Accountant

March 3, 2006

**Karl L. Drake, P.C.**  
**Certified Public Accountant**

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3775 Kimmel Road

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March 3, 2006

To the Board of Directors of  
Dexter Area Fire Department

I have recently completed the audit of the financial statements of Dexter Area Fire Department for the year ended December 31, 2005, and would like to take this opportunity to make the following comments and recommendations.

Financial Overview

The Department finished the year with total fund balance of \$284,898. This is an increase of \$25,472 over the prior year level. Total revenues were up approximately \$80,000 compared to previous year amounts. Total expenditures were up \$125,000. The most significant areas of expenditure increase were salaries, benefits, workers compensation, and capital outlay.

The Department is continuing to make payments on the trucks purchased in 2000 and 2001. At December 31, 2005, the 2000 truck had 2 remaining payments of \$58,429 and the 2001 truck had 3 payments of \$54,364.

The Department continues to be in strong financial position. The Department should create a schedule of planned capital purchases to determine what amounts should be set aside year-by-year to make future purchases without the expense of borrowing.

Budgeting

In 2005, a grant was received for capital purchases. The budget was not amended when these monies were spent, and therefore the capital outlay account expenditures exceeded the budget. When the circumstances change throughout the year, the budget should be amended to reflect the adjusted spending priorities. This provides the legal authorization necessary for the spending.

Thank you for the opportunity to continue to work with your Department. If you have questions regarding any of this information, please contact my office.

Sincerely,



Karl L. Drake, CPA